

## **BUSINESS AND BANKS, AS THE MODERNIZATION ENGINES IN THE REPUBLIC OF KAZAKHSTAN**

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### **ABSTRACT**

In article main types of programs which are carried out now by the state for support of business and a role of the second level banks as intermediaries for medium of the credits with reduced interest rates for development of small and average business in Kazakhstan are considered.

Probe opens the potential of business in Kazakhstan, its prospect, a problem facing business, such as, competitiveness with import goods and services, ensuring stability and balanced growth of regional business in not raw sectors of economy, and also preservation operating and creation of new constant workplaces.

Results of probe confirm that if programs carried out by the state in the sphere of business will be carried out at good level, we can reach training and assistance in employment, the self-employed, unemployed and disadvantaged citizens, assistance to business development in the village, increasing mobility of manpower.

The contradiction in legislative base of business where there is some imperfection of conducting business mechanism, misfit of a ratio of supply and demand on a manpower, and also use of inactive segments of the population in labor activity is established.

**KEYWORDS:** Financial Business, Production Business, Commercial Business, Business Plan, Innovative Business Activity, Venture Business, Farming

### **INTRODUCTION**

Relevance of research is defined by that business being the engine of national economy it is necessary to support always small and medium business as it leads to capital inflow, unemployment rate drop, reduction of inflation and development economy as a whole.

Business – as the engine of economy in Kazakhstan Republic

Strategic problems of economy in Kazakhstan are development of a domestic production, carrying out innovative information technologies directed on receiving competitive production and ensuring interests of national economic security at the expense of preservation and development of industrial and scientific and technical capacity of the republic.

The introduction problem on the market of small enterprises in the light of the last changes in economy of our country is especially urgent. In the conditions of a difficult economic crisis which resulted in bankruptcy of a large number of huge oligopoly, it is necessary to remember support of small business. The collapse led to that the large companies lost the positions on a commodity market and services, and the majority of the medium-sized and small enterprises which “stayed afloat” till September 1998, in general ceased to exist. Who now can support the Kazakhstan economy? This business also needs to be given in a charge of small and medium business. Economically it is favorable because emergence of a large number of firms will lead to emergence of new workplaces, it is easier to manage small enterprise in the conditions of an unstable rate of national currency and it will bring real money in the budget not only the center, but

also regions that is especially important, considering huge decline of subjects of RK. And one of the most important advantages is that emergence of small and medium business inevitably conducts to emergence of the competition in the domestic market that so didn't suffice to economy of Kazakhstan at the last stages of development that brought to creation of monopolies and to power concentration, both political, and economic, in hands of small group of people which possessed the huge capitals. But to avoid it is as much as possible mistakes which are inevitable at forming a new current in economy of Kazakhstan, at first it is necessary to learn on take-off and falling of other countries in this area and to understand, what conditions are necessary for development of small business in our country [1].

Business is the risky business which is carried out voluntarily by citizens (their associations) on the risk and under the responsibility. Business associates with concepts to make something new or to improve the already existing. It is connected with the concepts “dynamism”, “initiative”, “courage” and releases in society that potential which turns many interesting ideas into reality. Since then its priority development is an integral part of a state policy and the majority of cardinal changes in society is connected with it.

According to President N.A.Nazarbayev: “Small business is life or death of the state”. On experience of foreign countries it is visible that small and medium business is a basis of economic development of the country and makes the main part in GDP [2].

Business is a driving force of the countries with civilized market economy. In the developed countries small business took for a long time the place in economy and its role determined by its functions and a real contribution in public progress, constantly increases. Today in Kazakhstan there are three main versions of business: financial, production and commercial.

Financial business activity is directly connected with object of trade, in this case - money, currency, securities. This activity is carried out, directly, by the share and currency exchanges, investment banks.

Financial business exists in two forms:

- Release in the circulation of securities (emission);
- Acquisition of actions, etc. securities.

According to the Law of Kazakhstan Republic of July 4, 2003 No. 474 “About state regulation, control and supervision of the financial market and the financial organizations” the financial market is a set of interactions connected with rendering and consumption of financial services, and also emission and the address of financial instruments. Financial services are an activity of participants of the insurance market, securities market, accumulative pension funds, bank activity, activities of the organizations for carrying out separate types of the bank operations, carried out on the basis of the licenses issued according to the legislation of Kazakhstan Republic, and also activity of the central depositary, the uniform registrar and societies of the mutual insurance, not subject to licensing.

Production business activity. The businessman makes goods, production, and works, provides services, information, creates cultural values which then realizes to the consumer. Production can be industrial, agricultural (farming), construction and other types.

It is very expensive and difficult kind of activity. It is surely necessary the starting, main and reverse capitals, not to do and without hired workers. It is necessary to establish also relations with suppliers of raw materials, container, spare parts to machines (cars), and fuels. And even for production the room, working facilities, tools, transport, computers, etc. are necessary. There are two options – to get all this at once or in the beginning to rent. Don't forget to consider the

expenses connected with labor. Rationally to use on it means, pay due attention to the correct staff recruitment.

Competently made business plan significantly will simplify and will facilitate start of production company.

Commercial business activity is trade and exchange and commodity-money operations, purchase and sale of goods and services. Now in the territory of CIS countries is practically the most widespread type of business. A large number of IB deals with commercial activity in Kazakhstan. This type of business is very flexible, easily satisfies demand since constantly it studies. The direction of production would be more difficult to be changed, and it is much easier to redirect realization of already made goods. The percent of the income from resale on the average makes from 20 to 30% whereas in production it is considered satisfactory an indicator of 10-12%.

Risks in commercial business are the highest one. At the conclusion of contracts, transactions it is important to consider all possible nuances: situation in the market, a course of used currency, a rate of the customs duties, cost of delivery and so on – all this defines percent of profit on trade.

Trade can be: the branch; wholesale and retail; external and internal (import, export); goods of long using, etc. Commercial interaction of suppliers and buyers of goods is most widespread. Auctions, commodity exchanges, fairs are the main points of wholesale trade.

There are also business subspecies, such as the following:

Innovative business activity

This is creation and commercial using inventions of technical and technological type. This is venture (risk) business financing scientific probes, advance and adaptation of innovations and opening, experimental production. The segment of small business, in our opinion, is optimum for conducting innovative business since in its conditions it is easier to maneuver.

Farming (country economy) is one of the forms of small business most widespread now in Kazakhstan.

Farming is a family - labor association of persons which uses farmlands in the activity and makes agriculture production, and also carries out its processing and realization.

Farmers are the individuals doing the business without education of legal person.

Experience shows that the most profitable are farms with narrow specialization, and also in what advanced technologies and modern methods of the organization of working process are widely applied.

A significant amount of new created enterprises in modern conditions, in this or that country faces the certain problems which majority arises at a stage of forming the enterprise. As a rule, beginning businessmen aren't able to afford to hire the qualified lawyers, accountants, marketing specialists, PR managers and so on. Specialized services of the service center are free of charge provided to the subjects of small business which are carrying out activity in priority sectors of economy, on the following types of business processes: conducting accounting and tax accounting, drawing up the statistical reporting, service in customs procedures, consultation on introduction of quality management systems, legal advice and so on [3]. Today there are 4 programs for supporting business.

“A road map of business 2020” which is ensuring stability and balanced growth of regional business in not raw sectors of economy, and also preservation operating and creation of new constant workplaces. The main directions of this program are:

- Support of new business - initiatives,
- Improvement of a business sector,
- Drop of currency risks of businessmen,
- Strengthening enterprise potentiality.

The program of employment 2020 provides increasing the income of the population by assistance steady and productive employment.

Main directions of the program:

- Training and assistance in employment of the self-employed, unemployed and disadvantaged citizens
- Assistance to business development in the village
- Increasing the mobility of a manpower

The program of post-crisis restoration (improvement of the competitive enterprises) provides recovering solvency of the competitive enterprises.

The main tools of the program are:

- Subsidizing
- Granting delays on payment of taxes and other obligatory payments in the budget
- Providing tax preferences, etc.

The program on development of agro-industrial complex in RK on 2010-2014 provides crediting and development of the agro-industrial sphere.

Main directions of the program:

- Development of plant growing branch
- Development of animal husbandry branch
- Crediting agricultural production

Today there are following institutes of development the business:

- JSC “National Innovative Fund”
- JSC “Fund of Development Business “Damu”
- JSC “Agrarian Credit Corporation”
- JSC “Kazagromarketing”
- JSC “Fund of Financial Support of Agriculture”
- JSC “Kazagrofinance”
- JSC “Development Bank of Kazakhstan”
- JSC “BRK-Leasing”

- Investment fund of Kazakhstan
- JSC “Kazyna Capital Management”
- JSC “National Export Agency and Investments “KAZNEX INVEST”
- JSC “KazEksportGarant”
- National agency of technical development of “NATR”
- Kazpatent [4]

Business support is timely in the conditions of the next approaching wave of world financial and economic crisis when strongest and most prepared for changes will survive in business.

Huge help of the state comes through banks of the second level. For financing new created enterprise it is possible to plan attraction of the necessary financial help under certain conditions. Addressing in commercial banks, many of which are operators of the funds allocated from republican and regional budgets or foreign credit lines, the enterprises can place the order for receiving the credit on these lines if the project corresponds to conditions and requirements. These credits are much cheaper, than own saved-up means of banks (the interest rate is lower).

The program of the caused directing means through the banks of the second level (BSL) is one of instruments of realizing a state policy on financial support of small and medium business (SMB) in the Republic of Kazakhstan.

The program is carried out by granting JSC “Fund of Development Business “Damu” to banks of the second level of financial resources (funding) on certain (target and restrictive) conditions for the subsequent crediting subjects of SMB. Thus one of the basic principles of work with partner banks is the non-interference policy in their internal procedures and credit process from Fund, and also their full responsibility for risks of the made decisions. The program is developed for increasing efficiency of the state measures for financial support of SMB.

#### **Program Tasks**

- To increase degree of availability and efficiency of granting credit resources for subjects of SMB by attracting organizational technical capabilities of backbone banks of the second level to business financing;
- To expand coverage of potential borrowers among subjects of SMB and to provide acceptable level of uniformity of distributing credit resources in all territory of the country.

Into the list of Banks – partners and the financial organizations participating in realizing mechanism of financial support of small and medium business entered:

- JSC “Kazkommertsbank”,
- JSC “BTA Bank”,
- JSC “National Bank of Kazakhstan”,
- JSC “ATF Bank”,
- JSC “Credit Center Bank”,
- JSC “Kaspibank”, JSC “Nurbank”,
- JSC “Eurasian Bank”,

- JSC “Tsesna Bank”,
- JSC “Alliance Bank”,
- JSC “Astana Bank — Finance”,
- JSC “Sberbank”

Conditions of Granting Loans for Subjects of Small and Medium Business on this Program

- Loans are granted on acquisition of fixed assets, refill of current assets and
- Refinancing of operating loans (internal/external);
- Crediting term - till 84 months;
- Limit on one borrower – 750 million tenge;
- Final annual effective rate – no more than 12,5% per annum;

Grace period on repayment of a principal debt - on the loans provided on refill of current assets till 6 months, on the loans provided on other purposes till 12 months.

In January-March, 2013 in comparison with January-March of previous year output (in the comparable prices) small and medium business increased by 0, 4%, the number of the occupied – for 9%, number of active subjects - for 12,1%.

Output by subjects of small and medium business for January-March, 2013 made 1963,2 billion tenge. In total the number of subjects of SMB the share of individual entrepreneurs made 70,6%, country (farmer) farms – 20,2%, legal entities of small business – 8,1%, legal entities of average business – 1,1%.

Monitoring of small and medium business for July 1, 2013.

In January-June, 2013, in comparison with January-June of previous year, output (in the comparable prices) grew by 0,9%, number of active subjects - by 1,3%, number occupied - by 6,3%.

Output by subjects of small and medium business for January-June, 2013 made 199,2 billion tenge. In total the subjects of SMB the share of individual entrepreneurs made – 74,4%, country (farmer) farms – 13,2%, legal entities of small business – 11,0%, legal entities of medium business – 1,4%.

On the whole in Kazakhstan 1,8 mln people are involved in small and medium business in Kazakhstan, it is 23 percent from the general number of economically active part of population. At the same time, the number of self employed in small and medium business approaches 50 percent of working population in big cities of Kazakhstan. Major problems of entrepreneurship are dominating of raw export, low share of SMB in DGP in Kazakhstan, comparatively non developed layer of enterprise, outputting production with added cost. Share of production, outputting by small and medium business in DGP is kept on middle level 15-16 % [5].

## CONCLUSIONS

Domestic business is a driving force of a new economic course. The share of small and medium business in economy has to grow by 2030 at least twice.

First, we have to create conditions that the person could try business, to become the full-fledged participant of

economic transformations carried out in the country, instead of to wait that the state will solve for it all problems. It is important to hoist the general level of business culture and to stimulate an enterprise initiative. It is necessary to encourage aspiration of small and medium business to association and cooperation and to create system of their support and encouragement, to develop domestic market at the expense of encouragement of local business initiatives and minimum, but rigid regulation, to provide introduction new, more rigid, responsibility systems for state officials who create artificial obstacles for business.

Problem of today is creation of necessary conditions and preconditions for transition of the small enterprises and individual entrepreneurs in the category of averages.

Unfortunately, now existing sideways in system of the taxation of small and medium business interfere with their development and growth. Therefore the Government needs to make until the end of 2013 changes to the legislation, directed on accurate differentiation of concepts of micro, small, medium and large business. Thus we shouldn't increase load of small and average business segments. It was entrusted to government to cancel all permissions and licenses which directly don't influence health and safety of citizens of Kazakhstan, and to replace them with notices until the end of the first half of the year 2013.

On a legislative basis it is necessary to create conditions under which business itself will regulate questions of quality control of provided goods, works and services. We need to develop the new safety system of the rights of consumers, having excluded for them multilevel system of adoption of judgments.

Secondly, for creation of reliable dialogue on the principles of state-private partnership it is necessary to continue business consolidation that solves a problem of broad coverage and an involvement of all businessmen into realization of this new strategy.

The analysis of international experience shows that businessmen' consolidation in the chambers is one of the most important factors of economy effectiveness. Where it is fulfilled, there is a principle "strong business – strong state". State in collaboration with alliance "Atameken" is carried out auxiliary membership in the National chamber of businessmen.

This model provides delegating the authority of National chamber and functions of state bodies in the sphere of professional – technical education, complex service supporting of small business, particularly in the village and cosmopolitans. National chamber of businessmen is a reliable and competent partner of The Government.

Thirdly, the state should change its role. We need the second phase of wide scale of nationalizing.

It is difficult, because it means de distributing responsibility between the state and market. But we should do it for keeping high pace of economical growth.

Private business is always and everywhere more effective than the state. Thus we need to give enterprises and services of non strategic nature into the private business. It is principally important for strengthen of domestic business. [6]

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